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Report of the Director of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2015

Summary

The present report on the UNFPA internal audit and investigation activities of the Office of Audit and Investigation Services (OAIS) for the year ending 31 December 2015 responds to Executive Board decisions 2015/2 and 2015/13 and earlier pertinent Board decisions.

The report presents a review of activities completed in 2015 by OAIS on internal audit and investigation. The report contains information on (a) the resources in OAIS for 2015; (b) significant issues revealed through OAIS internal audit and investigation activities; (c) investigations, including cases of fraud and actions taken; (d) the review of internal audit recommendations issued in 2010-2014 and their implementation status. Finally, this reports provides the opinion of OAIS, based on the scope of work undertaken, on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control. Annexes 1 to 8 are available separately on the UNFPA website.

Pursuant to Executive Board decision 2015/2 and earlier pertinent decisions, the annual report of the UNFPA Audit Advisory Committee (DP/FPA/2016/7/Add.1) is provided as an addendum to the present report. The management response thereto and to the present report is also available (DP/FPA/2016/CPR.2). The management actions undertaken in the follow-up to the 15 recommendations issued by the then Division for Oversight Services in its earlier report (DP/FPA/2011/5) are contained in Annex 5, available separately on the UNFPA website.

Elements of a decision

The Executive Board may wish to:

Take note of the present report (DP/FPA/2016/7), the annual report of the Audit Advisory Committee (DP/FPA/2016/7/Add.1), and the management response (DP/FPA/2016/CRP.2) thereto and to the present report;

Express its continuing support for the strengthening of the audit and investigation functions at UNFPA, and for the provision of sufficient resources to discharge their mandate;

Acknowledge and support the engagement of the Office of Audit and Investigation Services in joint audit and investigation activities.

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(Annexes 1 to 8 are available separately on the UNFPA website)

I. Introduction

1. The present report provides the Executive Board with a summary of the internal audit and investigation activities conducted by the Office of Audit and Investigation Services (OAIS) in 2015. It also provides the opinion of OAIS, based on the scope of work undertaken, on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control processes, as per decision 2015/13. The report also corresponds to the third full year of public disclosure of internal audit reports.

II. Assurance at UNFPA

A. Mandate

2. The OAIS mandate is based in Article XVII of the 2014 UNFPA financial regulations and rules, the oversight policy,[1] and the accountability framework.[2]. OAIS solely performs or manages, or authorizes others to perform or manage, the following oversight functions: (a) independent internal audit services (adequacy and effectiveness of governance, risk management and internal control processes, and economic and efficient use of resources); and (b) investigation services (allegations of wrongdoing). The UNFPA Executive Director approved the OAIS Charter on 17 July 2014.

3. The Audit Advisory Committee (AAC) and the United Nations Board of Auditors regularly monitors the quality of OAIS work. The AAC continues to offer advice to promote the effectiveness of audit and investigation services provided by OAIS; in 2015, it reviewed the OAIS annual workplan, budget, regular progress reports, annual report and internal audit reports. The United Nations Board of Auditors monitored the actions taken to implement their recommendations aimed at improving OAIS operations. The external auditors continued to rely on OAIS work and reports in 2015.

4. As in past years, OAIS received support from UNFPA senior management throughout the year. The OAIS Director attended, inter alia, meetings of the UNFPA Executive Committee in ex officio capacity, which provided her with an opportunity to advise senior management on governance, accountability or control aspects of new policies or procedures and to comment on any emerging potential risks to UNFPA.

5. OAIS conducted its work in accordance with the professional standards by which it is bound and the policies by which it has to abide – the oversight policy, the financial rules and regulations, and the staff rules and regulations; for internal audit, the International Standards for the Professional Practice of Internal Auditing;[3] and for investigation, the UNFPA disciplinary framework, the UNFPA vendor sanction policy, the UNFPA policy on protection against retaliation for reporting misconduct or for cooperating with an authorized fact-finding; and the Uniform Guidelines for Investigations.

6. To ensure its continuing effectiveness in carrying out its mandate, OAIS maintains a quality assurance and improvement programme for both the internal audit and the investigation functions. This programme includes ongoing and periodic external quality assessments. In 2015, OAIS internal audit activities were again independently reviewed by the Institute of Internal Auditors (IIA), which confirmed that they were in general conformance with the international standards and the IIA code of ethics.

[1] Executive Board decision 2015/2; see also DP/FPA/2015/1.
[2] See DP/FPA/2007/20.
[3] Promulgated by the Institute of Internal Auditors (IIA).

7. The OAIS Director hereby confirm to the Executive Board that OAIS enjoyed organizational independence in 2015. OAIS has been free from interference in determining and performing the scope of its work, and communicating its results.

B. Opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control

8. The opinion is based on OAIS audits of country offices, regional offices and corporate processes, joint audits of interagency activities, as well as follow-up reviews of past audits, completed between 1 January and 31 December 2015, as explained throughout the report. All OAIS audits were conducted in accordance with applicable standards (see paragraph 5).

9. To formulate its opinion, OAIS considered, as appropriate, other sources of evidence,: (a) the cumulative audit knowledge stemming from OAIS audits completed in previous years, as considered relevant; (b) the status of implementation of internal audit recommendations, as at 31 December 2015; (c) systemic issues noted in investigations completed in 2015; (d) audit findings reported by the United Board of Auditors in its management letter on the interim 2015 audit of UNFPA, dated 6 January 2016; (e) the results of national execution audits commissioned by management and completed in 2015 ; (f) the results of control self-assessments completed by numerous country and regional offices as well as headquarters business units in February 2016; and (g) the results of risk assessments completed as part of the enterprise risk management process under implementation by management, starting in 2015.

10. UNFPA management is responsible for designing and maintaining the governance, risk management and internal control processes and ensuring that these operate effectively. The responsibility of OAIS is limited to independently assessing the adequacy and effectiveness of these processes. The OAIS audits and other sources of evidence considered to formulate the opinion refer primarily to activities conducted by UNFPA in 2014 and in previous years. Additional matters could have been identified, that may have impacted the opinion, had additional audit work been performed.

11. In the opinion of OAIS, based on the scope of work undertaken as described above, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes was '*partially satisfactory*', which means that the processes were generally established and functioning; none of the issues found were assessed as having the potential to seriously compromise the achievement of UNFPA objectives. However, one or more issues were identified that, if not addressed by management, could negatively affect that achievement.

12. Annex 1 provides additional information, including the criteria considered to formulate the opinion.

III. Resources

13. As of 31 December 2015, OAIS had 21 approved posts: 4 at the general-service level (one vacant at year end) and 17 at the professional level (14 encumbered and 3 under recruitment at year end, one each in internal audit, investigation, and the Directorate). Past difficulties in identifying suitably qualified candidates, compounded by delays in the entry-on-duty process, remained valid in 2015. The overall vacancy rate in OAIS remained stable at 16 per cent, with a different distribution compared to 2014 (see Table 1).

14. Since 2014, OAIS has been solely funded from the UNFPA institutional budget. The 2015 budget total for OAIS, adjusted for the 2015 actual vacancy rate, remained stable,

compared to 2014 (see Table 1). In 2015, OAIS proactively managed its budget, with the Directorate absorbing the OAIS austerity measures and financially supporting the investigations branch; where possible, the funding from vacant posts was re-allocated to engage outside support for specific engagements or investigations.

Table 1
Resources – 2014 and 2015

	Internal Audit		Investigation		Directorate		AAC		Total	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Professional posts - approved	10	10	5	5	2	2	-	-	17	17
Vacancy rate	*21%*	*13%*	*0%*	*9%*	*33%*	*50%*	-	-	*16%*	*16%*
Support posts – approved	1	1	1	1	2	2	-	-	4	4
Vacancy rate	*0%*	*0%*	*0%*	*0%*	*0%*	*6%*	-	-	*0%*	*3%*
									(In thousands of United States Dollars)	
Staff costs (vacancy adjusted)	1 982	2 193	933	949	557	483	-	-	3 472	3 624
Individual consultants	89	87	129	173	-	-	65	58(*)	283	318
Procured services	504	736	21	29	30	-	-	-	554	765
Travel	283	238	218	184	42	15	143	73	686	509
Operational costs (**)	55	37	20	20	37	1	3	3	114	60
TOTAL	**2 913**	**3 291**	**1 321**	**1 355**	**666**	**499**	**211**	**134**	**5 109**	**5 276**

(*) After relinquishing Chairperson fee.

(**) Mainly for information technology (IT) systems.

IV. Compliance with the oversight policy

15. As stipulated in DP/FPA/2015/1 (paragraph 27), OAIS resources were effectively and efficiently deployed but the funds available were insufficient for expanding internal audit coverage, addressing the increasing, and increasingly complex, investigation caseload, or for supporting management other than through sporadic advisory services (as explained later).

16. The procedures for disclosure of internal audit reports, as stipulated in DP/FPA/2015/1, were in force throughout 2015, its third year of public disclosure. No request for access to reports issued between September 2008 and November 2012 was received in 2015. All reports issued after 1 December 2012 have been made public, within one month of internal issuance. For OAIS, the clarity and quality of its internal audit reports remain a matter of continuous attention, with significant time and effort invested in management interactions.

V. Internal audit

A. Risk-based audit planning

17. OAIS executes its assurance activities based on a risk-based audit plan, approved by the Executive Director after review by the Audit Advisory Committee. The plan is based on a documented risk assessment of the audit universe, composed of 139 business units and 35 corporate processes (see paragraph 22 and Table 2). Risk is measured through a set of factors, representing the potential impact and likelihood of events that might adversely affect the achievement of objectives of the business units and processes assessed.

18. The business unit audit risk assessment is based on financial and programmatic information indicative of (a) materiality of programme expenses; (b) programme complexity; (c) programme changes; (d) operational complexity; (e) programme performance; (f) quality of governance and control of fraud and corruption[4] in the country where the unit is located; (g) business unit capacity to manage the programme; and (h) the results of consultations with management at headquarters and regional offices. The assessment further incorporates the results and issuance dates of internal or external audits undertaken thus far.

19. A separate risk model is used for the audit risk assessment of corporate processes, reflecting factors relative to (a) financial materiality; (b) process impact and complexity; (c) level of change affecting these processes; (d) effectiveness of the controls and systems in place; and (e) capacity of the business units responsible for managing the process controls and systems. The model also reflects consultations with relevant headquarters management.

20. Risks associated with information technology are assessed independently, either on a regular basis or when fundamental changes occur, as recently with the move to cloud-based applications.

B. Outcome of the audit risk assessment

21. The 2015 internal audit workplan was developed based on the audit risk assessment completed in December 2014 (details included in document DP/FPA/2015/7, pages 7 to 9).

22. Given the significant reduction in core resources faced by UNFPA in 2016, the audit risk assessment update was deferred, pending information on the nature, extent and foreseen impact of the management response. In the meantime, a provisional 2016 workplan was developed; it may be revised, as appropriate, once the response measures are known.

23. The provisional audit plan for 2016 is based on (a) the 2014 audit risk assessment results, revisited to allow the comparing of audit coverage cycles of the New-York based funds and programmes, through harmonization of the thresholds applied to identify high and medium risk country offices (see Table 2), and (b) on the information technology risk assessment conducted in 2015.

Table 2
Outcome of the 2014 audit risk assessment

Entities assessed	High risk	Medium risk	Low risk	Total
Country offices	12	50	59	121
Regional offices	1	5		6
Liaison offices	-	-	6	6
Headquarters units involved in programme delivery	1	4	1	6
Business units	**14**	**59**	**66**	**139**
Corporate processes	**17**	**16**	**2**	**35**

C. Internal audit activities in 2015

24. The 2015 internal audit workplan included 26 engagements, covering a mix of high and medium-risk business units, high-risk corporate processes and joint audits with other United

[4] Based on indicators published by the World Bank.

Nations internal audit services (decided at inter-agency level), as well as one follow-up review of a past audit. In order to maximize resources (see Table 3), engagements were deliberately planned to reach varying degrees of completion by year-end, as reflected in the 2015 internal audit workplan endorsed by the Audit Advisory Committee and approved by the Executive Director.

25. By year-end, all planned fieldwork had been completed, with preliminary results reported to management, except one joint audit for which fieldwork completion was deferred to January 2016; overall, 15 reports (including drafts) were issued, compared to 18 reports planned (see Table 3).

Table 3
Overview of engagements in 2015

Status	Business Units	Corporate processes [a]	Joint audits [b]	Follow-up review	Total
Summary of planned engagements – by finalization year					
Audit to be finalized in 2015	11	5	1	1	18
Audit started in 2015 and to be completed in 2016	5	1	2		8
Total engagements	**16**	**6**	**3**	**1**	**26**
Summary of actual engagements – by status at year end					
Final reports issued	7	2	1	1	11
Draft reports issued	3	1			4
Subtotal	**10**	**3**	**1**	**1**	**15**
Draft report under preparation or OAIS management review	6 [c]	3	1		10
Planning or fieldwork phase	1 [c]		1 [d]		2
Total	**17**	**6**	**3**	**1**	**27**

Notes

(a) Includes audit of major programme.

(b) Under leadership of other United Nations internal audit services.

(c) One engagement (fieldwork) deferred to 2016 at management's request, substituted by starting an additional engagement.

(d) Completion of field work deferred to January 2016.

26. Timeliness of report finalization during 2015 continued to be adversely affected by limited OAIS management capacity – a problem previously brought to the attention of the Audit Advisory Committee and management –,as well as by lengthy discussions on reports and the elapsed time in receiving management responses. Issuance of some audit reports suffered from staff turnover and the need to reschedule fieldwork to accommodate auditee staff availability.

Resulting audit coverage

27. Based on the resources approved for internal audit in the institutional budget 2014-2017the revised audit risk assessment model (see paragraph 23) and a full staff complement, it was projected that, over the period 2015-2018, high-risk business units would be audited over a three-year cycle, medium-risk business units over a 13-year cycle, with corporate processes covered by cross-cutting reviews (supplementing the coverage provided through field office audits) over a 15 to 17-year period. Also planned was obtaining assurance for low-

risk business units solely through a continuous auditing process – reviewing from headquarters the operating effectiveness of selected key controls and significant financial transactions of low-risk units.[5]

28. Such projected coverage is no longer achievable given the resources allocated for internal audit in 2016. To maintain coverage of high-risk business units over a three-year period, the audit cycle for medium-risk business units would be lengthened. By expanding the scope of continuous audit activities to medium-risk offices would provide some additional assurance, while drastically limiting coverage of corporate processes through cross-cutting audits.

29. Additional human and financial resources would be required to reach the audit cycle of 3 years for high-risk business units; 10 years for medium-risk business units (with additional assurance provided through continuous auditing activities); and 10 years for cross-cutting reviews of corporate processes, as submitted by OAIS for consideration by the Audit Advisory Committee and management. OAIS has reflected these in its midterm budget proposal to UNFPA management.

D. Key findings of internal audit activities

Country office audits

30. In 2015, OAIS issued five country office audit reports. The audits covered the governance, risk management and internal control processes in place – covering 'office governance' and 'programme' and 'operations management' areas with a scope and depth of review commensurate with the results of the audit risk assessment conducted during the engagement planning phase.

31. Of the five reports, two (40 per cent) were rated as 'partially satisfactory'[6] and three (60 per cent) as 'unsatisfactory',[7] as set out in Annex 2. Ratings by audit area are summarized below.

Table 4
Audit ratings by area for 2015

Area	Satisfactory		Partially Satisfactory		Unsatisfactory	
	Number of offices	Per cent	Number of offices	Per cent	Number of offices	Per cent
Office Governance	-	-	2	40%	3	60%
Programme Management	-	-	1	20%	4	80%
Operations Management	1	20%	2	40%	2	40%

Main findings

32. The main areas for improvement revealed in 2015 are consistent with those identified and reported in previous years. Key findings (good practices and improvement opportunities) are presented below, mirroring the structure of country office audit reports. A tabular overview is included in Annex 3.

[5] Process implementation started in 2016, following the arrival in July 2015, of a dedicated data analysis specialist.
[6] One or more issues were identified that could negatively affect the achievement of the objectives of the audited entity if not addressed by management.
[7] One or more issues were identified that could seriously compromise the achievement of the objectives of the audited entity.

(i) Office governance

33. Regular staff and management meetings to exchange information, monitor programme implementation and improved coordination of programmatic and operational activities were observed again in 2015. Some offices also prepared clear and relevant annual management plans, and their staff demonstrated a good understanding of their roles and responsibilities, as well as of policies and procedures.

34. The audits continued to identify the need to (a) regularly review the organizational structure of country offices and personnel to align their capabilities and contract modalities with programme delivery and operational needs, particularly when preparing new country programmes; (b) more promptly fill vacancies in key positions; and (c) enhance support from, and oversight by, regional offices and headquarters for offices experiencing extended vacancies. The full operationalization of the leadership pool process and of the human resources strategic partner network, based in regional offices, is expected to contribute to improvements in the above areas.

35. The audits also continued to reveal the need for improving annual office management plans, through a better definition of outputs and their related indicators, baselines and targets, as well as for significantly improving risk management by ensuring that business units follow an effective process to (a) identify and assess all relevant risk impacting their operations; and (b) define and implement appropriate risk mitigation actions. In the context of the new enterprise risk management process (under implementation since July 2015), most business units had completed, by the end of 2015, an initial assessment of a portfolio of strategic and fraud risks defined at the corporate level. Starting in 2016, management should assess, with the involvement of risk focal points and the support of subject matter experts, the response to risks considered 'critical' or 'high', for subsequent review and discussion by the risk committee chaired by the Executive Director.

(ii) Programme management

a. Programme planning, implementation and monitoring

36. Using mobile phone banking technology or the local banking system, some offices implemented highly effective processes to facilitate the payment of travel expenses and incentives to programme participants – as seen in fistula repair surgery campaigns and in payments to census enumerators. These practices, which minimize the risks associated with handling cash payments, should be considered for replication by other offices.

37. The audits stressed the need to develop more comprehensive results frameworks to better outline and link (a) programme outputs; (b) indicators, related baselines and targets; and (c) resource estimates.

38. Notwithstanding the implementation of the global programming system since November 2014, the audits continued to reveal improvement opportunities related to (a) timelines for finalizing key programme documents and workplans; (b) the level of workplan detail; (c) regular updates of workplans as per the 2014 workplan management policy; (d) the level of detail supporting workplan budgets; (e) effectiveness of programme financial management controls, including expenditure reviews and budget-to-actual reconciliations; and (f) alignment of workplans signed with implementing partners with the corresponding workplan 'snapshots' reflected in the global programming system. The audits further revealed the continued need for a more consistent and rigorous monitoring of implementation of programme activities and results achieved.

39. Two high-priority recommendations were directed to headquarters to address significant issues identified in 2015 country office audits: (a) implement a mandatory quality assurance review process over the design, planning and delivery of programmes involving innovative approaches (such as pay-for-performance arrangements); and (b) design a time-based action plan to provide a corporate response to the challenges that limit the effectiveness of humanitarian response activities.

b. National execution

40. The audits continued to reveal the need for a more thorough and better documented assessment of the programmatic and financial management capacity of implementing partners, as this is a key input for selecting the most appropriate cash transfer modalities as well as the nature and frequency of programmatic and financial monitoring activities. Improvements are expected in this area following the roll-out to all UNFPA offices, starting in 2016, of the revised harmonized approach to cash transfers (HACT) framework; the roll-out preparedness process included a revised capacity assessment checklist, and training provided to field offices in 2015. The audits further revealed insufficient financial monitoring of implementing partners, to ensure that funds were being used for their intended purposes; a recommendation was made to headquarters to increase the coverage of annual audits of implementing partners in countries with insufficient financial monitoring, or where such monitoring revealed significant financial issues.

41. Recurring occurrences of funds transferred to implementing partners outside the operating fund account process and of expenses related to activities carried out by implementing partners but recorded as direct execution by UNFPA, albeit limited in number, continued to be identified. These deviations from established procedures reduce management assurance on the appropriate utilization of funds provided to these implementing partners, since the related expenses are not subjected to national execution assurance activities. More details on operating fund account and national execution status are presented in Annex 6.

c. Inventory management

42. Increased management attention is required to improve the operating effectiveness of inventory and supply-chain management controls and to reinforce compliance with the inventory management policy. In particular, there is a need to (a) enhance involvement of UNFPA offices in reproductive health commodities needs assessments and forecasting activities in some priority countries; (b) support, together with other programme stakeholders programme countries, to address gaps in supply-chain management systems that may reduce availability of reproductive health commodities and originate stock-outs; (c) consistently perform, and document, receiving and inspection controls; and (d) regularly monitor the inventory of reproductive health commodities held by implementing partners, as well as track its timely distribution and availability at service delivery points.

43. The audits continue to recommend enhancing inventory order tracking. Improvements in this regard are expected following the implementation, since 2016, of the new Atlas-based 'shipment tracker' application (this will replace the inventory management system in use throughout 2015).

d. Management of non-core resources

44. The audits identified significant non-core resource management issues in two country offices. In one instance, the audit noted insufficient due diligence and management oversight – necessary to ensure that interventions funded through a co-financing agreement signed with

a private-sector donor were aligned to the UNFPA mandate; a recommendation was provided to headquarters to enhance the strategy and modality for collaboration with the private sector.

45. In another audit, major planning, implementation, communication and reporting issues affecting a significant non-core funded programme were not identified or acted upon in a timely manner by management, leading to its cancelation.

(iii) Operations management

a. Procurement

46. The UNFPA Procurement Services Branch continued its efforts to (a) update the procurement procedures; (b) develop guidance notes and tools; (c) increase the procurement capacity of field offices through training missions and promotion of the Chartered Institute of Procurement and Supply (CIPS) certifications by field offices procurement focal points; and (d) dedicate support teams by region. Yet the audits revealed increased instances of non-compliance with procurement procedures at the local level, in the areas of bidding, contract award and contract management. These were not identified and properly addressed in time due to limited managerial oversight controls. Recurring opportunities to expand the use of long-term agreements at the local level, to increase procurement efficiency and value-for-money, were also noticed.

b. Human resources

47. One country office implemented an innovative process, using a 'Performance Assessment and Development Review Committee' to enhance the effectiveness and objectivity of staff performance assessments.

48. The need for improved compliance with the policies and procedures applicable to awarding and managing service and individual consultancy contracts continued to be noted. Compliance with mandatory training requirements should also be reinforced.

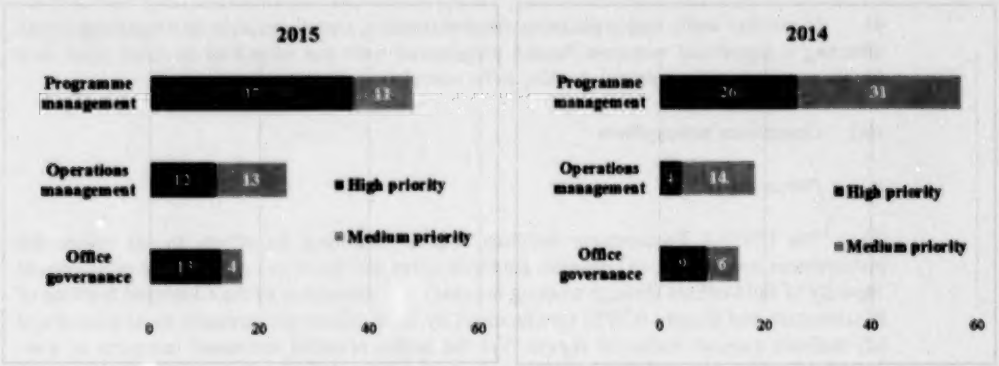
c. Financial management

49. Expenses not recorded in the appropriate project, activity, fund and general ledger account codes continue to be found, thus diminishing the overall reliability of programme and financial information. New instances of inadequate handling of value-added tax reimbursement claims were also noted.

Recommendations made

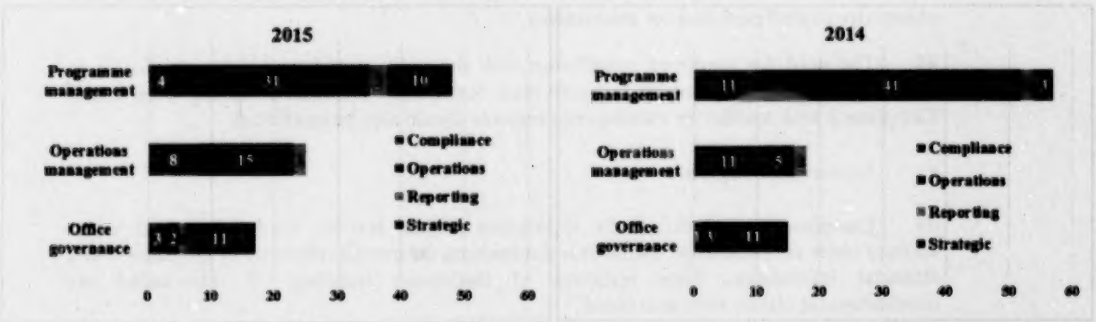
50. Overall, 90 recommendations were issued in 2015 in relation to country office audits; 62 of these recommendations (69 per cent) were rated 'high priority', while the remaining 28 recommendations (31 per cent) were rated 'medium priority' (see Figure 1).

Figure 1
Country office audit recommendations – by priority level



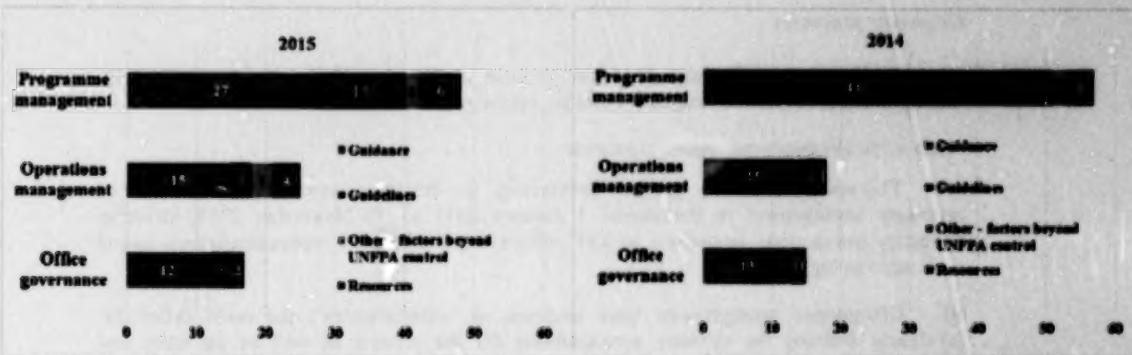
51. Similar to prior years, most recommendations relate to *operations* – 48 recommendations (53 per cent) – followed by *strategic* matters – 21 recommendations (23 per cent, primarily in the areas of 'office governance' and 'programme management') – and by *compliance* matters – 15 recommendations (17 per cent) – with *reporting* being last (see Figure 2).

Figure 2
Country office recommendations - by type



52. Insufficient 'guidance' (inadequate or insufficient supervisory controls) remained the main root cause for issues identified – 54 recommendations (60 per cent) – followed by inadequate 'guidelines' (lack of or inadequate policies – 19 recommendations (21 per cent) – and resources (human or financial) – 12 recommendations (13 per cent) (see Figure 3).

Figure 3
Country office audit recommendations - by cause



Regional office audit

53. The OAIS audit of the East and Southern Africa regional office was rated 'partially satisfactory'. The audit covered office governance, programme and operations management processes, as well as provision of technical, strategic and operational support to, and oversight over, country offices in the region. Overall, 13 of the 19 recommendations provided were rated as high priority.

54. The audit revealed several good practices, e.g. mechanisms for oversight over the regional programme implementation and the performance of country offices in the region, as well as the creation of a 'programme coordination and quality assurance' unit to support the development of country programmes and their quality assurance.

55. In the area of office governance, the audit recommended revisiting the structure and staffing of the office, to align programme delivery and support to the region with oversight needs. Regarding support and oversight of country offices, the audit recommended enhancing the review of country office alignment with the strategic plan, 2014-2017 and monitoring of country programme implementation. Improvement opportunities were also noted regarding regional programme implementation and oversight of regionally coordinated projects.

56. Other improvement opportunities, regarding the provision of technical assistance to country offices, included expediting the shift from primary provider to broker of technical assistance, in line with the UNFPA strategic plan; improving the effectiveness of the technical assistance management process, starting with an assessment of the 'Technical Assistance Management System' functionality; and enhancing the global consultant roster functionality and content, defining a more effective roster management process, integrated with the individual consultant management process (recommendation addressed to headquarters).

Joint audit

57. OAIS participated in the joint audit of the "Delivering as one" programme in Malawi, which was rated 'partially satisfactory'. Eight of the 16 recommendations,[8] all addressed to the United Nations country team, were rated as high priority. They related to design weaknesses in the United Nations Development Assistance Framework (UNDAF); the absence of a robust UNDAF, joint workplan and quality assurance process; gaps in the integrated monitoring and evaluation plan and in results reporting; an incomplete One Fund resource mobilization strategy; weaknesses in the 'business operating' strategy and its implementation mechanism; and inadequate follow-up on the HACT macro-assessment.

[8] This figure is excluded from the number of recommendations reported by UNFPA.

Corporate processes

58. OAIS completed three business process audits in 2015, covering inventory management, procurement, and staff benefits, entitlements and financial assistance.

Audit of the inventory management process

59. This audit assessed as 'partially satisfactory' the design and operating effectiveness of inventory management in the period 1 January 2011 to 30 November 2014, covering inventory transactions amounting to $97 million. Most of the 21 recommendations issued were rated as high priority.

60. Governance arrangements were assessed as 'unsatisfactory'; the audit called for (a) clearly defining the ultimate accountability for the process as well as the roles and responsibilities of all actors involved; (b) updating the inventory management policies and procedures manual issued in 2012, so that it also covers downstream supply-chain activities; and (c) clarifying the role of 'inventory focal points and supporting them better through standard operating procedures, tools and training.

61. Controls related to inventory delivery and distribution were assessed as 'unsatisfactory'. Significant enhancements are required to improve monitoring of the distribution, by implementing partners, of contraceptives and other inventory items supplied by UNFPA, to ensure they promptly reach intended beneficiaries and to help discharge the organization's fiduciary obligations towards the donors that fund the inventory.

62. Management of inventory held under the control of the Procurement Services Branch as well as inventory accounting and reporting controls were assessed as 'satisfactory'. Controls in place at country offices require improvement in the areas of order tracking and clearance, receiving and inspection, and warehouse management and inventory control.

Audit of governance arrangements and design of internal controls over the procurement process

63. This audit assessed as 'satisfactory' the governance arrangements over the procurement function as well as the design of the established internal controls over the processes followed to solicit, award and manage procurement contracts. The UNFPA procurement framework and its related processes proved to be robust in most areas, and the organization has taken proactive steps to regularly update and enhance them.

64. Procurement strategy and organizational structure and staffing of the procurement function were 'satisfactory', while management of procurement operations was assessed as 'partially satisfactory', requiring (a) better alignment of the annual management plans of the Procurement Services Branch with the procurement strategy implementation plan; (b) an expanded portfolio of indicators used to measure procurement performance; and (c) strengthened reporting on and oversight over procurement operations. The design of controls in place on requisitioning, vendor sourcing, offer solicitation, submission management and evaluation, and contract management was rated 'satisfactory', while some further enhancements in procurement planning, contract award and vendor performance are necessary.

Audit of staff benefits, entitlements and financial assistance

65. This audit assessed as 'partially satisfactory' the management of staff benefits, entitlements and financial assistance in the period 1 January 2012 to 30 June 2014. Nine of the 15 recommendations issued were rated as high priority.

66. The audit assessed the governance arrangements over this process as 'unsatisfactory', primarily due to the lack of systematic managerial oversight of staff benefits, entitlements and financial assistance transactions, as well as the limited monitoring of the process operating performance and level of service received from UNDP, to whom UNFPA outsourced most activities.

67. Controls in place over the processing of staff benefits and entitlements, amounting to $84.6 million in the period under review, were assessed as 'satisfactory'; no significant issues were identified. Controls regarding staff financial assistance, which amounted to $11.8 million in the same period, were rated as 'partially satisfactory', calling for a strengthening of the guidelines on processing staff advances as well as closely monitoring and accelerating the clearance of aged advances (amounting to $1.7 million during audit fieldwork).

E. Follow-up of internal audit recommendations

Outstanding recommendations

68. As shown in Table 5, 184 recommendations[9] were outstanding, as at 31 December 2015, following the closure of 118 recommendations implemented throughout 2015.

Table 5
Status of implementation of audit recommendations by year

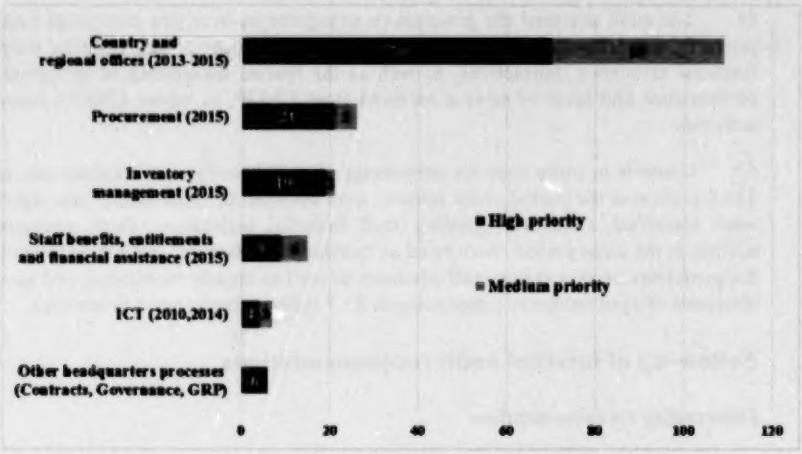
Reports issued in	Number of reports	Recommendations issued	Outstanding recommendations	
			2014	2015
2010-2011	29	711	15 *(2%)*	6 *(1%)*
2013	12	112	21 *(19%)*	4 *(4%)*
2014	9	101	95 *(94%)*	26 *(26%)*
Subtotal	**50**	**924**	**131** *(14%)*	**36** *(4%)*
2015	11	171	N/A	148 *(87%)*
Total	**61**	**1 095**	N/A	**184** *(17%)*
Of which: past their implementation deadline				*118 (64%)*
due for implementation in 2016				*66 (36%)*

69. Of all outstanding recommendations, 109 (59 per cent) pertain to country and regional office audits, primarily from 2014 and 2015 (see Figure 4). Of these, 66 recommendations correspond to *programme management* (e.g., programme planning and implementation (23), inventory management (20) and national execution (17); 25 recommendations to *operations*, inter alia on financial management (11 recommendations); and 18 recommendations to *office governance*.

70. Out of the six outstanding recommendations related to headquarters processes, five correspond to the 2011 contracts and governance audits and one to the 2014 global and regional programme audit.

Figure 4
Recommendations outstanding, as at 31 December 2015

[9] The status of implementation of joint audit recommendations is excluded from this figure, and is reported by UNDP.



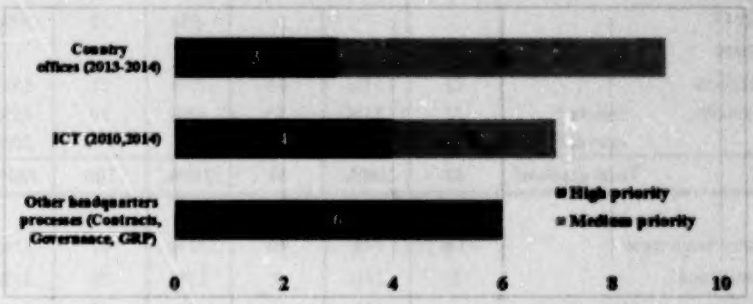
GRP – Global and regional programme
ICT – Information and communication technology

71. In line with Executive Board decision 2014/16, OAIS performed a follow-up review of the recommendation and lessons learned presented in the audit of the global and regional programme 2008/2011 (report dated 8 February 2013), assessing the degree to which these were reflected in the design and first implementation year of the global and regional interventions, 2014-2017. The follow-up revealed that management made significant progress in 'programme design', and progress in 'programme execution', and 'programme monitoring and reporting'. It identified more limited progress in governance and programme management. The implementation status of this recommendation will be reassessed after completion of the midterm review of the strategic plan 2014-2017, through which management plans to address the feedback from the follow-up.

Recommendations unresolved for 18 months or more

72. Of the 184 open recommendations, as at 31 December 2015, 22 remained unresolved for 18 months or more (see Figure 5 and Annex 4), compared to 26 recommendations in 2014. Of the 22 recommendations, 9 relate to country offices; of the ICT recommendations, 6 correspond to the 2014 audit of the user provisioning and authentication process (for which action is underway) and one to completing the development of a more robust ICT internal control framework; while 3 relate to the 2011 governance audit – (a) improving programme financial management mechanisms; (b) providing tools and training to build monitoring capacity in country offices; and (c) developing a system for monitoring and controlling the use of contract personnel – for which management actions have been ongoing since 2012, with slow progress. Another two recommendations relate to the 2011 contracts audit – (a) more clearly defining the ownership of the contract management process and enhancing the related regulatory framework; and (b) implementing stronger accounts payable controls at headquarters – also with limited progress in 2015.

Figure 5
Recommendations unresolved for 18 months or more



VI. Investigation

73. The Investigation Branch of OAIS is responsible for conducting investigations into all types of allegations of wrongdoing:

(a) Misconduct by UNFPA staff ranging from fraud and corruption to workplace harassment, abuse of authority, retaliation against whistle-blowers, sexual exploitation and abuse, and other violations of applicable regulations, rules and administrative or policy issuances. These are referred to as 'internal cases' and 'internal investigations';

(b) Failure by independent contractors, implementing partners and other third parties to comply with its, his or her obligations, including fraud and other financial irregularities, committed to the detriment of UNFPA. These are referred to as 'external cases' and 'external investigations'.

74. After receiving a complaint, OAIS conducts a preliminary assessment to determine whether there are reasonable indications of wrongdoing. When OAIS determines that there are insufficient grounds to merit a full investigation, the matter will be closed, documented with a closure note; when appropriate, situations are referred to management for attention or action, or for informal resolution. If the assessment shows the allegation(s) to be credible, OAIS opens a formal investigation. Should these be substantiated, OAIS issues an investigation report by subject (staff, other personnel or entity involved) to the Executive Director, for appropriate administrative or disciplinary action and, where relevant, for recovery of funds or assets. When an investigation reveals systemic weaknesses in internal controls, OAIS may issue a separate communication for management to address the identified weaknesses..

A. Caseload

75. In 2015, OAIS received 71 new complaints. Although the number of cases remained stable between 2014 and 2015, new complaints are increasingly complex and resource intensive, with 27 relating to external matters in 2015, compared to 21 in 2014. Together with the 44 cases carried over from 2014, OAIS was dealing with a total of 115 active cases (see Table 6), an increase of approximately 174 per cent, compared to 2012, and 10 per cent compared to 2014.

Table 6
Overview of cases received and closed in 2015(*)

	2012	%	2013	%	2014	%	2015	%
Cases carried over								
- from 2012 or earlier	19	45%	20	25%	2	2%		

- from 2013					0%	32	30%	3	3%
- from 2014								41	36%
Complaints received		23	55%	61	75%	71	68%	71	61%
of which:	*internal*	23	55%	55	68%	50	48%	44	38%
	external	-		6	7%	21	20%	27	23%
Total caseload		**42**	**100%**	**81**	**100%**	**105**	**100%**	**115**	**100%**
Cases closed									
After preliminary assessment		17	77%	40	85%	41	67%	35	56%
After full investigation		5	23%	7	15%	20	33%	28	44%
of which:	*substantiated*	4	18%	6	13%	15	24%	13	21%
	unsubstantiated	1	5%	1	2%	5	8%	15	24%
Total cases closed		**22**	**100%**	**47**	**100%**	**61**	**100%**	**63**	**100%**
Cases carried over to the following year		**20**		**34**		**44**		**52**	
of which:	*internal*	20	100%	28	82%	27	61%	26	50%
	external	-		6	18%	17	39%	26	50%

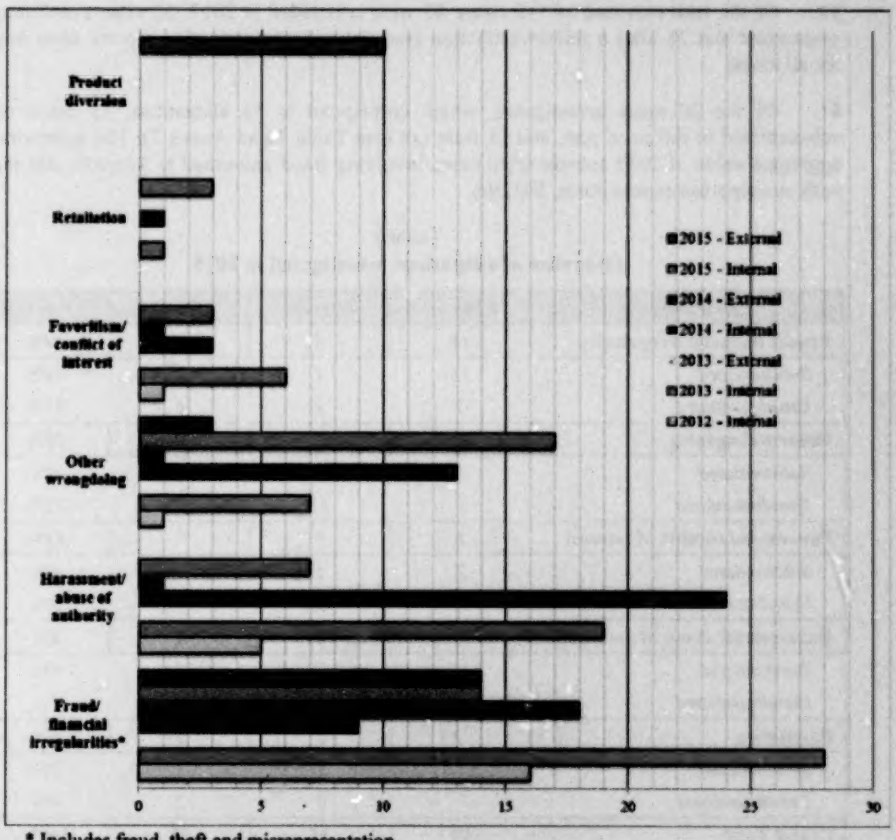
(*) A complaint may contain several allegations pertaining to different individuals, and lead to several reports, as appropriate.

76. In nine further cases, management solicited advice related to the OAIS investigation mandate.

B. Types of complaints

77. As indicated in Figure 6, 26 cases (37 per cent) received in 2015 relate to fraud (internal and external). Allegations of other forms of wrongdoing without financial implications (e.g. assault, unauthorized disclosure of confidential information, misuse of UNFPA property) were the second largest category of cases received, totalling 20 cases (28 per cent). In 2015, OAIS received for the first time reports of pharmaceutical product diversion – 10 cases (14 per cent). Other allegations relate to harassment and abuse of authority – 7 cases (10 per cent) – retaliation against whistle-blowers – 3 cases (4 per cent) – favouritism – 2 cases (3 per cent) – as well as conflict of interest, misrepresentation, and theft – one case each (1 per cent). Fraud (predominantly procurement fraud and fraud by implementing partners) and product diversion represented 89 per cent of external cases.

Figure 6
Overview of complaints received between 2012 and 2015



* Includes fraud, theft and misrepresentation.

78. Complaints were reported by email directly to OAIS (65 per cent); through the OAIS confidential investigation hotline (9 per cent); by referral from entities external to OAIS or UNFPA (17 per cent); and in person (5 per cent).

79. Due to the increasing complexity of matters received in 2015 and the limited resources available to OAIS, 52 cases were carried over to 2016, representing a 20 per cent increase compared to 2014. Of these, all but four were received in 2015. The cases carried over related equally to external and internal matters. Fraud represented 40 per cent, followed by other misconduct (21 per cent), product diversion (19 per cent), harassment (12 per cent), favouritism (4 per cent), misrepresentation (2 per cent) and conflict of interest (2 per cent). Of the carried-over portfolio, 42 per cent (22 cases) corresponded to high-priority cases; 75 per cent (39 cases) were at the preliminary assessment stage, and 25 per cent (13 cases) at the investigation or report writing stage.

C. Disposition of cases

80. Of the total caseload of 115 cases, 63 were concluded in 2015: 35 after a preliminary assessment and 28 after a full investigation (see Table 6). Investigation reports were issued for all cases.

81. Of the 28 cases investigated, which correspond to 52 allegations, 13 cases were substantiated in full or in part, and 15 were not (see Table 7 and Annex 7). The approximate aggregate value of 2015 substantiated cases involving fraud amounted to $26,000, and those with unsupported expenditures, $91,366.

Table 7
Overview of allegations investigated in 2015

Description	External	Internal	Total	Percentage
Fraud/ financial irregularity	**15**	**8**	**23**	***44%***
Substantiated	*13*	*4*	*17*	*33%*
Unsubstantiated	*2*	*4*	*6*	*12%*
Other wrongdoing	**2**	**13**	**15**	***29%***
Substantiated	*1*	*2*	*3*	*6%*
Unsubstantiated	*1*	*11*	*12*	*23%*
Favoritism/ conflict of interest	**2**	**5**	**7**	***13%***
Substantiated	*2*	*1*	*3*	*6%*
Unsubstantiated		*4*	*4*	*8%*
Harassment/ abuse of authority		**4**	**4**	***8%***
Substantiated		*3*	*3*	*6%*
Unsubstantiated		*1*	*1*	*2%*
Retaliation		**3**	**3**	***6%***
Substantiated		*1*	*1*	*2%*
Unsubstantiated		*2*	*2*	*4%*
Grand Total	**19**	**33**	**52**	***100%***
Substantiated	*16*	*11*	*27*	*52%*
Unsubstantiated	*3*	*22*	*25*	*48%*

D. Disciplinary measures or sanctions taken

82. Disciplinary and/or administrative action was taken in 13 of the 14 UNFPA cases substantiated in 2014, with management action pending in the last one. Additionally, recovery of the losses identified ($18,783.66) was initiated (see Annex 8).

83. Of the 13 cases substantiated in 2015, 6 were pending management action at year-end; administrative or disciplinary action, including consideration of referral to national authorities, was initiated for the other 5 (see Annex 7). In one case, the subject was separated from the organization; in another, the subject left the UNFPA upon contract expiration during the investigation.

84. Further, in 2015, OAIS engaged in extensive follow-up communications on its cases pending before the United Nations dispute tribunal and (since 2015) the UNFPA vendor review committee. These interactions require significant time investment at the senior investigation level.

E. Investigation capacity challenges

85. The OAIS investigation mandate has been significantly expanded to include investigations of (a) harassment and abuse of authority (2013); and (b) external investigations involving third-party wrongdoing (2014). In 2015, many of the new cases reported were increasingly complex (e.g. product diversion, implementing partner fraud), requiring experienced investigators.

86. Clauses in numerous UNFPA legal agreements require OAIS to report periodically to donors on credible allegations of wrongdoing and on investigations. This reporting, combined with the growing follow-up on cases mentioned above, increases the demand on OAIS resources.

87. OAIS has reached its capacity limit; its staffing levels have remained unchanged since 2012, while its mandate has expanded (as explained in paragraph 85). In 2015, OAIS continued to rely heavily on short-term investigation consultants (equivalent to one P4 and one P2 full-time positions). The upgrade of an investigator post from P3 to P4 in 2016 marginally eases the situation; however, the 25 per cent budget reduction in its 2016 operational costs affects travel and consultant funding, jeopardizing the ability of OAIS to deliver on its investigation mandate.

VII. Advisory activities

88. The external and internal environment in which UNFPA operates continues to change rapidly; the rationale elaborated in DP/FPA2015/7 (paragraph 74) remained valid in 2015. Hence, the demand on OAIS advisory services stayed high.

89. However, due to its capacity, OAIS had to limit these drastically without assuming any management responsibilities (for example, in making decisions or implementing recommendations emanating from OAIS):

(a) *Review of audit and investigation clauses in financing agreements*. OAIS reviewed multiple versions of the 16 agreements brought to its attention (34 in 2014; 25 in 2013), most of which required responses within very short timeframes;

(b) *Audit and investigation function assessments*. OAIS participated in a dozen reviews conducted by Member States and donors at the local and corporate levels, while responding to their questions throughout the year;

(c) *Policies*. OAIS limited its activity to reviewing only those 10 policies it considered critical (22 in 2014; 12 in 2013);

(d) *Support to UNFPA senior management*. This includes, but is not limited to, OAIS participation as an observer in various steering or working committees;

(e) General support to UNFPA staff.

90. Advisory demands on OAIS remained ad hoc, and several requests required significant investment, inter alia by OAIS management. Despite efforts to limit such investment, it had a disruptive 'domino-effect' on other OAIS activities, contributing to the increased workload.

VIII. Coordination within the United Nations system

A. Internal audit

91. In 2015, OAIS pursued its involvement in inter-agency activities and meetings on internal audit. OAIS was involved, as in past years, in three joint audits. OAIS participated in the sharing of practices and experience among the internal audit services of the United Nations Organizations, Multilateral Financial Institutions and Other Associated Intergovernmental Organizations (UN-RIAS and RIAS).

92. In 2015, OAIS was again the UN-RIAS Vice-Chair for joint audits and focal point for United Nations Development Group (UNDG) interactions. Of particular importance was the successful conclusion of work on the audit and investigation clauses included in the legal instruments for pass-through funding adopted by UNDG in 2015.

B. Investigation

93. In 2015, OAIS continued working in close collaboration with the United Nations Representatives of Investigative Services (UN-RIS). OAIS was active in inter-agency investigation activities, particularly the framework for joint investigations, and in the meetings of UN-RIS and the Conference of International Investigators.

C. Joint Inspection Unit

94. OAIS also continued its role as the UNFPA focal point for the Joint Inspection Unit, liaising, on about 20 reports at various stages of completion, with UNFPA units, the Joint Inspection Unit and the Secretariat of the Chief Executives Board for Coordination.

IX. Overall conclusion and next steps

95. Through its various actions in response to OAIS reports and advice, management continued to demonstrate in 2015 its commitment to increasing the effectiveness of the governance, risk management and control processes at UNFPA.

96. OAIS wishes to thank senior management, the Executive Board and the Audit Advisory Committee for their continuous support, which has enabled OAIS to carry out its mandate as successfully as possible.

97. Looking ahead, in the context of reduced institutional budget funding with an increasing demand for OAIS services, the main challenge for OAIS is, more than ever, the alignment of expectations with available resources.

98. Unfortunately, the "demand" for OAIS services outstrips the "supply", i.e. the resources available to the Office, given the risk appetite at UNFPA, the expected assurance work for internal audit (through an acceptable internal audit cycle coverage) and investigation (through prompt handling of complaints), compounded by requests for advisory services.

99. The increasing mismatch between "demand" and "supply" creates a significant fiduciary and reputation risk for UNFPA, as already noted in previous years. OAIS appreciates the management commitment to providing additional funding in 2016, should the financial situation ease. As part of the midterm review of the strategic plan 2014-2017, OAIS has put in a request for additional resources to deliver its mandate.

100. OAIS will continue to provide high-quality services, to the extent of the resources at its disposal.